

ALTERNATE DISTRIBUTION CHANNELS
FOR SMALL BUSINESS COMPUTERS

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FOR SMALL BUSINESS COMPUTERS

Prepared for:

INTERNATIONAL BUSINESS MACHINES CORPORATION
GENERAL BUSINESS GROUP

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ABSTRACT

A survey was done interviewing office equipment dealers and computer stores to determine their operating characteristics and experience in selling small business computers. Parameters researched included gross sales, age and location of stores, computer sales volume, margins, sales staff compensation, product line, brand name and mix, customer training, equipment maintenance, lead generation and prospecting methods, software, end user buying characteristics, and the market outlook for small business computers.

Y-DLA
May 1980

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I INTRODUCTION

I INTRODUCTION

A. PURPOSE AND SCOPE

- This report was prepared by INPUT as a custom study for the IBM General Business Group located in White Plains, New York.
- The intent of this study is to investigate the operating characteristics and experiences of office product dealers and computer stores in selling small business computers to:
 - Small companies with less than 100 employees.
 - Large companies with more than 100 employees.
 - Self-employed and professional people.
 - Affluent hobbyists and consumers.
- Store operating characteristics and topics surveyed include:
 - Prospecting.
 - Selling.

- Product line, brand name, and mix.
- Software and custom programming.
- Customer training support.
- Equipment maintenance.
- Markup and profit.
- Store staffing and size.
- Store location and hours.
- Sales staff compensation and training.
- Dealer market outlook.

B. RESEARCH AND METHODOLOGY

- A questionnaire was developed by INPUT and modified by the General Business Group of IBM at a joint meeting in White Plains, New York.
- Given the diverse nature of the existing channels of distribution of small business computers and the end user market, three qualifier questions were asked at the beginning of each interview to determine whether the respondent:
 - Currently sells small business computers or text/word processing equipment.
 - Sells this equipment (\$3,000 range and up) predominantly to businessmen.

- Plans to carry a small business computer line within the next 12 months.
- If a negative response was received to any of the three above-mentioned qualifiers, the interview was terminated.
- Yellow Page Directories for major cities, the NOMDA (National Office Machine Dealers Association) membership directory and the Information Technology Center Dealer Listing were used as source lists for the interviews.
- Fifteen (15) on-site and thirty (30) telephone interviews were used to gather the information obtained in the survey.
- A review of preliminary findings was made with the General Business Group of IBM in White Plains after 12 office equipment dealers and 12 computer stores were interviewed to determine the final distribution of interviews and direction of questioning.
- Respondents were asked if they would participate in a study of store operating characteristics and experience. Those that agreed were interviewed for 20-30 minutes by telephone and from one hour to 1¼ hours in person. The results are reported in Section III of this report.
- It was much more difficult to find office equipment dealers who presently carry a small business computer because either:
 - The dealer never took on a small computer line.
 - Some had done so previously and had gone out of business.
 - Some had done so with bad results, and after about six months had decided to drop the line.

- Respondent numbers are consistent throughout this report so that a particular response set can be tracked from exhibit to exhibit. Office equipment dealers are identified.
- An oral presentation was made to IBM in White Plains, New York on April 30, 1980, consisting of the material presented in Sections II and III of this report, with minor additions as requested by IBM.

II EXECUTIVE SUMMARY

II EXECUTIVE SUMMARY

A. DESCRIPTION OF RESPONDENTS INTERVIEWED

- Sixty percent (60%) of the respondents were from computer stores and 40% were office equipment dealers, most of whom operated regionally.
- Forty-one percent (41%) of the computer stores interviewed were part of a franchise or store chain; the balance of all respondents interviewed were privately owned.
- Computer stores interviewed had been in business for an average of 2.4 years with average gross sales of \$1,058,000.
- Office equipment dealers interviewed had been in business for an average of 12.4 years with average gross sales of \$854,000 per year.
- Owner/managers of computer stores were significantly younger in age than office equipment dealers, and the appearance of their stores was usually much more inviting than office equipment dealers.
- The 45 respondents surveyed were interviewed in 35 different cities, 14 states, and the District of Columbia, as shown in Exhibit II-1.

EXHIBIT II-1

GEOGRAPHIC DISTRIBUTION OF INTERVIEWS

STATE/CITY	COMPUTER STORES	OFFICE EQUIPMENT DEALERS
NEW YORK		
- NEW YORK CITY	2*, 1	2*
- CARLE PLACE	1*	
NEW JERSEY		
- MERCERVILLE		1*
- POMPTON PLAINS	1	
- ISELAND	1	
- SOMMERVILLE		1
- CHERRY HILL	1	
- PINEBROOK	1	
- EATONTOWNE	1	
- SUMMIT	1	
- PARSIPPANY		1
CONNECTICUT		
- WESTPORT	1	
MARYLAND		
- TOWSON	1*, 1	
- BALTIMORE		1*
- ESSEX		1*
- ROCKVILLE	1	
- COLUMBIA		1
PENNSYLVANIA		
- PITTSBURGH		1
- BUTLER		1
MASSACHUSETTS		
- BURLINGTON	1	
- BOSTON		1

*ON-SITE INTERVIEWS

EXHIBIT II-1 (CONT.)

GEOGRAPHIC DISTRIBUTION OF INTERVIEWS

STATE/CITY	COMPUTER STORES	OFFICE EQUIPMENT DEALERS
DISTRICT OF COLUMBIA	1	
VIRGINIA - VIENNA	1	
FLORIDA - MIAMI		1
MICHIGAN - SOUTHFIELD	1	
ILLINOIS - CHICAGO - PEORIA	1	1 1
WISCONSIN - MILWAUKEE	1	
TEXAS - HOUSTON - DALLAS	1 1	1 1
CALIFORNIA - SANTA CLARA - LOS ALTOS - PALO ALTO - HAYWOOD - SANTA MONICA - WESTMINSTER	1* 1* 1* 1* 1	1* 1*
TOTALS - 14 STATES, 35 CITIES AND THE DISTRICT OF COLUMBIA	27	18

*ON-SITE INTERVIEWS

- All respondents were eager to talk with someone who they thought was in a position to help them with their problems.

B. DEALER AND COMPUTER STORE ACTIVITY

- The average computer store interviewed:
 - Sold 241 computers annually.
 - Was rapidly shifting the direction of its sales from the hobby to the business market.
 - Carried an average of three or more brand name computers in the store.
- The average office equipment dealer interviewed:
 - Sold 58 computers annually.
 - Had been and intended to continue selling strictly to the business market.
 - Usually carried only one brand name computer in the store.
- Very few of all respondents interviewed were selling their small business computers through third-party leasing companies.
- Most office equipment dealers interviewed were survivors of the "first generation" of office equipment dealers who had taken on a small business computer line two to two and one-half years ago, and, through a long and costly self-education period (averaging one year), had learned how to survive and sell small business computers successfully.

- Almost all respondents interviewed provided all of the client education, equipment maintenance, and overall support needed to maintain a "systems" approach required to sell small business computers.
- Pricing, profits, and margins:
 - In general, margins from the manufacturer to the store owner and dealer have been from 25-30%.
 - Dealers and store owners stated that these margins are barely adequate.
 - Profit is made on the value added of custom programming to standard and special software packages, and on the sale of a variety of peripherals, especially printers and disk drives.
 - Pricing discounts are given by manufacturers only on the sale of very large quantities of computers, and average 2-5% on sales of 400-500 units per year.
 - The manufacturer's recommended selling price as advertised usually determines the dealer's and store owner's selling price.

C. KEY CONCLUSIONS

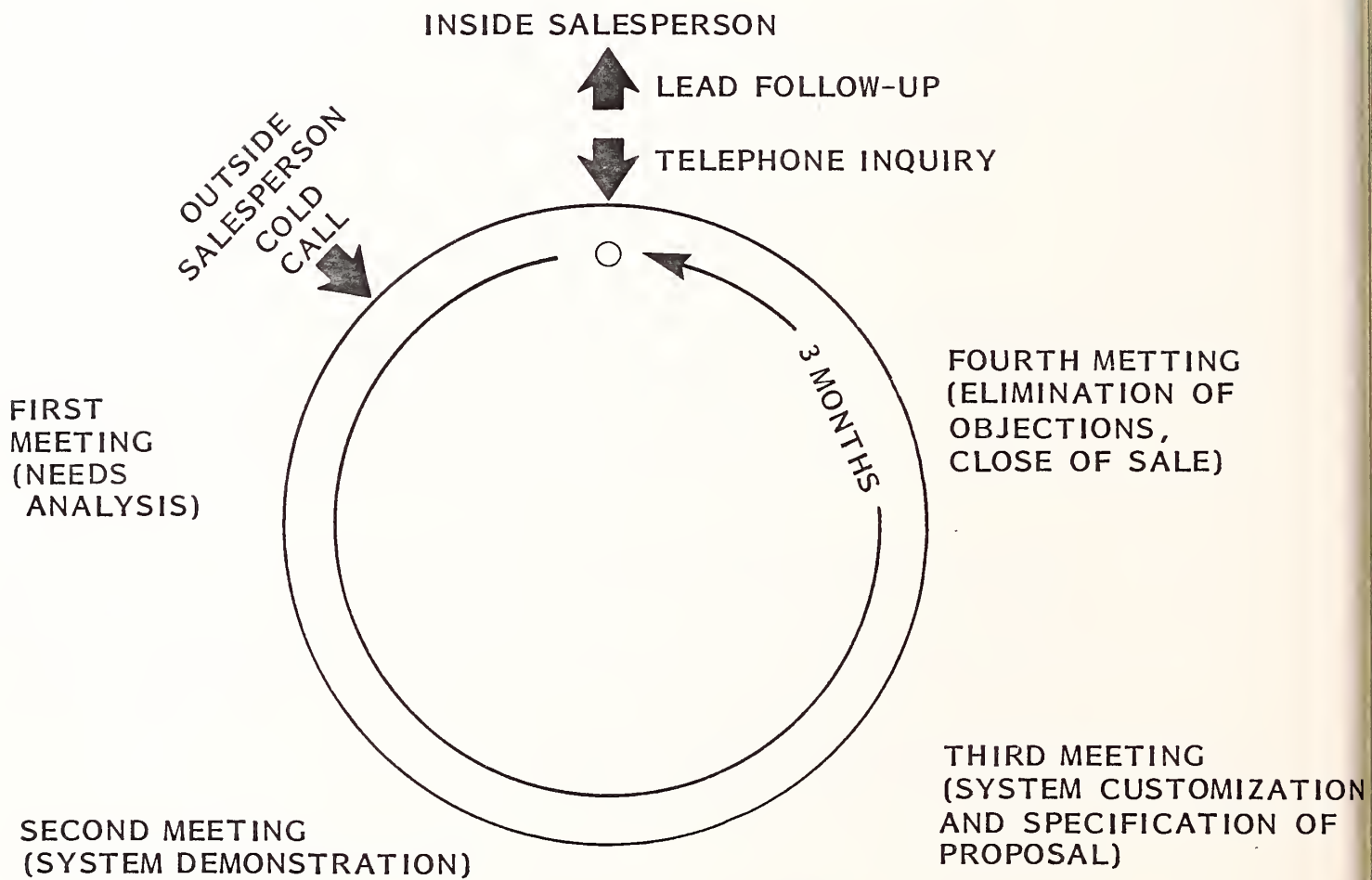
- Prospecting for computers:
 - Non-qualified buyer or passerby traffic "off the street" is not wanted.
 - "Walk-in" traffic is wanted.
 - Respondents define "walk-in" as:

- Telephone inquiry from yellow pages.
 - Telephone inquiry from advertising.
 - Word-of-mouth referral.
- The outside sales person's main functions are:
 - To get prospects to come into the store.
 - To create a sense of urgency which will make these prospects aware of the need to buy now.
- Respondents think that seminar selling is:
 - Effective.
 - Expensive.
 - Too sophisticated for most dealers and store owners.
- Prospecting for office equipment:
 - Outside sales people mostly operate from the store and use referrals, "bingo card" returns, and cold calls in developing prospects for small business computers.
- Demonstration of the operation of the computer and related software at the store is key to making the sale. Respondents indicated that more demonstration programs are needed by dealers and store owners to be able to sell more small business computers.
- Usually a program is "patched together" to simulate a prospects' application needs.

- The demonstration of the computer system usually takes about 30 minutes.
- There are usually four meetings in the computer sales cycle, as shown in Exhibit II-2.
 - Meeting 1 - needs analysis.
 - Meeting 2 - system demonstration.
 - Meeting 3 - system customization and specification of proposal.
 - Meeting 4 - elimination of objections and close of sale.
- Maintenance is usually the responsibility of the dealer or store owner. Most of the time, maintenance is done by a full-time technician either at the user's site or in the store. About seventy percent (70%) of the work is done on contract; about thirty percent (30%) on a time and materials basis.
- Training is always the responsibility of the dealer or store owner and is usually performed as one-on-one tutoring at the client's facilities. Training time varies depending on the name brand of the computer purchased and the complexity of the software. This training is usually supplemented with "hot line" telephone consultation privileges.

EXHIBIT II-2

TYPICAL DEALER/STORE SALES CYCLE



III FINDINGS

III FINDINGS

A. INTRODUCTION

- The exhibits in this section were presented orally to IBM in White Plains, New York on April 30, 1980.
- The results of the interviews are summarized in the exhibits. Recommendations and considerations for further study were made orally to IBM on April 28, 1980, in Saddle Brook, New Jersey, and on April 30, 1980, in White Plains, New York.

EXHIBIT III-1

RESPONDENT ESTIMATE OF COMPUTER SALES (UNITS)
BY TYPE OF MARKET

TYPE OF MARKET	ALL RESPON- DENTS (PERCENT)	COMPUTER STORES ONLY (PERCENT)	OFFICE EQUIPMENT DEALERS ONLY (PERCENT)
SMALL COMPANIES (LESS THAN 100 EMPLOYEES)	45.6%	37.1%	57.9%
LARGE COMPANIES (MORE THAN 100 EMPLOYEES)	15.1%	14.2%	16.5%
SELF-EMPLOYED AND PROFESSIONALS	25.7%	27.4%	23.2%
HOBBYISTS /AFFLUENT CONSUMERS	13.6%	21.3%	2.4%

EXHIBIT III-2

PRODUCT LINE, BRAND NAME, AND MIX OF EQUIPMENT CARRIED
BY STORE OWNERS AND DEALERS INTERVIEWED

SMALL BUSINESS COMPUTERS	WORD PROCESSING TEXT EDITORS	COPY MACHINES	OFFICE ELECTRIC TYPEWRITERS	OTHER
<p>APPLE COMMODORE ATARI DATA GENERAL INTERTEC APF TI</p> <p>ATARI TI NORTHSTAR CROMENCO</p> <p>H-P** PERTEC** INFOTEC**</p> <p>APPLE** ATARI** INTERTEC** VECTOR GRAPHICS** POLYMOPHIC**</p> <p>APPLE COMMODORE NORTHSTAR DYNABYTE ALTOS</p> <p>EXIDY** TI** CROMENCO** H-P**</p>				<p>DIABLO A/J CENTRONICS</p> <p>HAZELTINE TI XEROX</p> <p>SMALL POCKET CALCULATORS</p> <p>SMALL HAND CALCULATORS</p> <p>TELEPHONES POCKET CALCULATORS ANSWERING MACHINES</p>

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-2 (CONT.)

PRODUCT LINE, BRAND NAME, AND MIX OF EQUIPMENT CARRIED
BY STORE OWNERS AND DEALERS INTERVIEWED

SMALL BUSINESS COMPUTERS	WORD PROCESSING TEXT EDITORS	COPY MACHINES	OFFICE ELECTRIC TYPEWRITERS	OTHER
ATARI DATA GENERAL CROMENCO H-P VECTOR GRAPHICS DYNABYTE DEC APPLE COMMODORE VECTOR GRAPHICS PROCESS TECH. SOUTHWEST TPI LOMAC** APPLE ATARI VECTOR GRAPHICS TEI ITHACA SYSTEMS APPLE TI VECTOR GRAPHICS DYNABYTE			REMINGTON FACIT OLIVETTI SCM	SHARP CALCULATORS

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-2 (CONT.)

PRODUCT LINE, BRAND NAME, AND MIX OF EQUIPMENT CARRIED
BY STORE OWNERS AND DEALERS INTERVIEWED

SMALL BUSINESS COMPUTERS	WORD PROCESSING TEXT EDITORS	COPY MACHINES	OFFICE ELECTRIC TYPEWRITERS	OTHER
TI** H-P** CADO** MICRO** COMPUCORP** OMNI** APPLE COMMODORE ATARI TI NORTHSTAR CROMENCO DYNABYTE ONYX APPLE COMMODORE POLYMORPHIC OSI RETAIL SCIENCES** NORTHSTAR CROMENCO DYNABYTE APPLE DATA GENERAL H-P			SCM OLIVETTI OLYMPIA RECOND. IBM ROYAL OLIVETTI OLYMPIA OLIVETTI	SHARP TOSHIBA CALCULATORS SWEDA CASH REGISTERS SEIKO PRINTERS
	ZENITH			

***OFFICE EQUIPMENT DEALERS

EXHIBIT III-2 (CONT.)

PRODUCT LINE, BRAND NAME, AND MIX OF EQUIPMENT CARRIED
BY STORE OWNERS AND DEALERS INTERVIEWED

SMALL BUSINESS COMPUTERS	WORD PROCESSING TEXT EDITORS	COPY MACHINES	OFFICE ELECTRIC TYPEWRITERS	OTHER
APPLE COMMODORE ATARI APF CROMENCO VECTOR GRAPHICS APPLE NORTHSTAR MICRO APPLE INTERTEC TI CROMENCO H-P VECTOR GRAPHICS MICRO OHIO SCIENTIFIC APPLE CROMENCO APPLE COMMODORE APPLE COMMODORE EXIDY NORTHSTAR VECTOR GRAPHICS	IDS			

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-2 (CONT.)

PRODUCT LINE, BRAND NAME, AND MIX OF EQUIPMENT CARRIED
BY STORE OWNERS AND DEALERS INTERVIEWED

SMALL BUSINESS COMPUTERS	WORD PROCESSING TEXT EDITORS	COPY MACHINES	OFFICE ELECTRIC TYPEWRITERS	OTHER
APPLE INTERTEC POLYMORPHIC APPLE COMMODORE DATA GENERAL H-P COMMODORE** OHIO SCIENTIFIC** COMPUCORP** PRIME** RANDALL** QI** POLYMORPHIC DEC IMSAI APPLE COMMODORE CROMENCO H-P VECTOR GRAPHICS	OLIVETTI	RONIO OLIVETTI SAVIN CANON	OLIVETTI SCM SCM REBUILT IBM OLYMPIA RECOND. IBM OLIVETTI	 NCR AND BURROUGHS LEDGER CARD SYSTEM CALCULATORS

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-2 (CONT.)

PRODUCT LINE, BRAND NAME, AND MIX OF EQUIPMENT CARRIED
BY STORE OWNERS AND DEALERS INTERVIEWED

SMALL BUSINESS COMPUTERS	WORD PROCESSING TEXT EDITORS	COPY MACHINES	OFFICE ELECTRIC TYPEWRITERS	OTHER
INFOTEC** XEROX** APPLE COMMODORE TRS 80 (USED) APPLE NORTHSTAR CROMENCO VECTOR GRAPHICS IMSAI APPLE COMMODORE ATARI TI CROMENCO DYNABYTE APPLE ATARI TI NORTHSTAR CROMENCO VECTOR GRAPHICS APPLE DATA GENERAL H-P ZENITH	OLIVETTI			

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-2 (CONT.)

PRODUCT LINE, BRAND NAME, AND MIX OF EQUIPMENT CARRIED
BY STORE OWNERS AND DEALERS INTERVIEWED

SMALL BUSINESS COMPUTERS	WORD PROCESSING TEXT EDITORS	COPY MACHINES	OFFICE ELECTRIC TYPEWRITERS	OTHER
OLIVETTI 2030**	OLIVETTI	CANON OPECO OLIVETTI	OLIVETTI ADLER FACIT	CANON CALCULATORS
DATA GENERAL**			SEIKO REBUILT IBM	
APPLE** H-P**	NEC	CANON	REBUILT IBM SCM REMINGTON	
A.M. JACQUARD** B.R.D.**	OLIVETTI	OLIVETTI	OLIVETTI REMINGTON	
.				
..				
.				

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-3
LARGEST PRODUCT CONTRIBUTION TO OVERALL
DEALER/STORE BUSINESS SUCCESS

SMALL BUSINESS COMPUTERS				
APPLE	CROMENCO	DATA GENERAL	OTHER	
3**	2	28	4** VECTOR GRAPHICS	
7	7	41	5 ALTOS	
8	23		6** EXIDY	
10	35		13** COMPUCORP	
11			14** OMNI 68	
15			16 OSI	
16			17** RETAIL SCIENCES	
19			21 ALPHA MICRO	
20			22 S-100 LINE	
23				
24				
25			24 COMMODORE	
26			30** COMPUCORP	
27			31** PRIME	
35			33** QI	
37			34 POLYMORPHIC	
38			40 NORTHSTAR	
39				
40				
41				
44**				
ELECTRIC TYPEWRITERS				
REMINGTON	OLIVETTI, CITIZEN, SCM	OLIVETTI, ADLER, FACIT	SEIKO, RECOND. IBM	OLIVETTI, REMINGTON
9**	29**	42**	43**	45**
DESK TOP CALCULATORS				
SHARP		TOSHIBA, SHARP		CANON
12**		13**		42**

** OFFICE EQUIPMENT DEALERS

EXHIBIT III-3 (CONT.)

LARGEST PRODUCT CONTRIBUTION TO OVERALL
DEALER/STORE BUSINESS SUCCESS

DICTATION EQUIPMENT		
NORELCO		
12**		
COPIERS		
OLIVETTI	CANON, OPECO, OLIVETTI	OLIVETTI
29**	42**	45**
PRINTERS		
DIABLO		
36**		

** OFFICE EQUIPMENT DEALERS

EXHIBIT III-4

RESPONDENTS' COMMENTS ON PRODUCT WHICH CONTRIBUTES MOST TO OVERALL BUSINESS SUCCESS

- "Cromenco sold mostly to industrial process control engineers, for S-100 quality control applications."
- "Radio Shack advertising draws prospects into the store and they ultimately wind up buying an Apple."
- "Apple advertising is very strong; most people have heard of them and that has much to do with drawing people into the store."
- "Apple's Visicalc and Tiny Troll software packages sell 50% of my business prospects."
- "Apple is more in demand and in the right price range for most personal and business applications."

EXHIBIT III-5
LARGEST PRODUCT CONTRIBUTION TO OVERALL
DEALER/STORE SALES VOLUME

SMALL BUSINESS COMPUTERS		
APPLE	CROMENCO	OTHER
5 7 8 10 11 15 19 20 21 23 24 25 26 27 37 38 40 41	23 35 39	2** ATARI 4** VECTOR GRAPHICS 13** COMPUCORP 14** OMNI 68 16 SEIKO 22 S-100 LINE 28 DATA GENERAL 30 COMPUCORP 33** QI 34 POLYMORPHIC

HAND AND DESK TOP CALCULATORS			
TEXAS INSTRUMENTS	TEXAS INSTRUMENTS	CASIO	TEXAS INSTRUMENTS
3**	6**	12**	44**

ELECTRIC TYPEWRITERS					
REMINGTON	OLIVETTI	OLIVETTI	OLIVETTI	SEIKO	REMINGTON
9**	17**	29**	42**	43**	45**

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-5 (CONT.)

LARGEST PRODUCT CONTRIBUTION TO OVERALL
DEALER/STORE SALES VOLUME

PERIPHERALS	
APPLE	DIABLO
25	36**
LEDGER CARD SYSTEM	
NCR	BURROUGHS
31**	31**
COPY MACHINES	
SAVIN	CANON
32**	32**
WON'T SAY / DOESN'T KNOW	
18**	

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-6

LARGEST PRODUCT CONTRIBUTION TO OVERALL
DEALER/STORE PROFITS

SMALL BUSINESS COMPUTERS			
APPLE	CROMENCO	OTHERS	
5	2	4** VECTOR GRAPHICS	
7	23	6** EXIDY	
8	35	12** CADO	
10		13** COMPUCORP	
11		14** OMNI 68	
19		15 DYNABYTE	
20		16 SEIKO	
24		17** RETAIL SCIENCES	
25		21 ALPHA MICRO	
26		22 PRODIGY	
27		30** COMPUCORP	
35		31** PRIME	
		33** QI	
		34 POLYMORPHIC	
HAND AND DESK TOP CALCULATORS			
3**		44**	
ELECTRIC TYPEWRITERS			
REMINGTON	OLIVETTI CITIZEN, SCM	OLIVETTI	OLIVETTI, REMINGTON
9**	29**	42**	45**

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-6 (CONT.)

LARGEST PRODUCT CONTRIBUTION TO OVERALL DEALER/STORE PROFITS

COPIERS						
SAVIN			CANON			
32**			32**			
PRINTERS						
DIABLO						
36**						
WON'T SAY, DON'T KNOW						
18	28	37	38	39	40	41
ALL EQUIPMENT SERVICE						
43**						

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-7

RESPONDENTS' COMMENTS ON PRODUCT WHICH CONTRIBUTES MOST TO PROFITS

- There are two major reasons offered on why a respondent makes the most profit on a piece of equipment.
 - Good margins, even though volume may be low.
 - High volume, with average margins.
- A good computer will enable a dealer or computer store to develop a quality custom software program for the end user and permit a variety of peripherals to be added to the system (systems approach). There are good profit margins on software and peripherals.
 - A dealer or computer store cannot survive by selling small business computers at 25-30% margins.
 - The most successful dealers in this business use a "systems" approach to selling their computers.

EXHIBIT III-8

PRODUCT MOST EFFECTIVE IN DRAWING PASSERBY BUSINESS

- Thirty-three percent of all respondents indicated that an Apple computer with its color graphics package set up as a window demonstration unit accounted for their passerby business.
- "Walk-in" business is usually defined by respondents as a telephone call initiated by a prospect resulting from:
 - Passerby traffic.
 - Manufacturer or dealer trade journal or newspaper advertisement.
 - Word-of-mouth referral.
 - Telephone yellow page advertisement.

EXHIBIT III-9

LEAD GENERATION METHODS AND EFFECTIVENESS -
SUMMARY

	MOST USED
NEWSPAPER ADVERTISING	17.3%
WORD-OF-MOUTH REFERRALS	13.2
DIRECT MAIL	13.2
"BINGO CARD" REFERRALS	8.6
TRADE SHOWS	7.9
OTHER MISCELLANEOUS METHODS	7.9
RADIO ADVERTISING	6.6
SEMINARS	6.1
YELLOW PAGES	5.3
COLD CALLS	4.6
TRADE JOURNAL ADVERTISING	4.0
CIVIC AND TRADE ASSOCIATIONS	3.3
TELEVISION ADVERTISING	2.0
COUNTER DISPLAY NAME-DROP BOXES	0.0
	MOST EFFECTIVE
WORD-OF-MOUTH REFERRALS	27.5%
YELLOW PAGES	22.9
RADIO ADVERTISING	9.0
SEMINARS	9.0
CIVIC AND TRADE ASSOCIATIONS	9.0
COLD CALLS	9.0
DIRECT MAIL	4.5
NEWSPAPER ADVERTISING	4.5
OTHER MISCELLANEOUS METHODS	4.5

EXHIBIT III-10

LEAD GENERATION METHODS AND EFFECTIVENESS - DETAIL, PART I

RESPON- DENTS	DIRECT MAIL	NEWS- PAPER ADVER- TISING	TRADE JOURNAL ADVER- TISING	RADIO ADVER- TISING	TV ADVER- TISING	TRADE SHOWS	SEMINARS
1		X		X	X	X	
2		X				X	
3**		X					
4**	X	X	X			X	X
5	X	X					
6**	X	X				X	X
7							
8				X	X	X	X
9**						X	
10		X		X			
11		X		X			X
12**	X	X	X				X
13**	X	X		X			
14**							
15	X	X					
16	X	X	X			X	
17**	X	X					
18							
19		X					
20		X					X

** OFFICE EQUIPMENT DEALERS
*** MOST EFFECTIVE

EXHIBIT III-10 (CONT.)

LEAD GENERATION METHODS AND EFFECTIVENESS -
DETAIL, PART I

RESPONDENTS	DIRECT MAIL	NEWS-PAPER ADVERTISING	TRADE JOURNAL ADVERTISING	RADIO ADVERTISING	TV ADVERTISING	TRADE SHOWS	SEMINARS
21	X	X		X***	X	X	
22		X					
23	X	X***		X			
24							
25							
26							
27	X	X				X	X***
28		X	X				
29**			X				
30*	X						
31**	X						
32**		X					
33**	X						
34	X					X	
35						X	
36**	X	X					
37		X		X***			
38		X					

** OFFICE EQUIPMENT DEALERS

*** MOST EFFECTIVE

EXHIBIT III-10 (CONT.)
LEAD GENERATION METHODS AND EFFECTIVENESS -
DETAIL, PART I

RESPON- DENTS	DIRECT MAIL	NEWS- PAPER ADVER- TISING	TRADE JOURNAL ADVER- TISING	RADIO ADVER- TISING	TV ADVER- TISING	TRADE SHOWS	SEMINARS
39						X	X***
40		X	X				
41		X		X			
42**							
43**	X						
44**	X***	X	X	X			
45**	X					X	

** OFFICE EQUIPMENT DEALERS

*** MOST EFFECTIVE

LEAD GENERATION METHODS AND EFFECTIVENESS - DETAIL, PART II

**** OFFICE EQUIPMENT DEALERS
*** MOST EFFECTIVE**

EXHIBIT III-11 (CONT.)

LEAD GENERATION METHODS AND EFFECTIVENESS -
DETAIL, PART II

RESPON- DENTS	COUNTER DISPLAY NAME-DROP BOXES	CIVIC & TRADE ASSOCI- ATIONS	TELEPHONE YELLOW PAGES	WORD- OF- MOUTH REFERRALS	"BINGO CARD" REFERRALS	COLD CALLS	OTHER
21					X		
22					X		
23							
24				X***			
25				X***			
26							
27		X		X***	X		EDUCATION PROGRAMS PAST EMPLOYERS
28					X		
29**							OFFICE EQUIP- MENT AC- COUNTS
30**				X			
31**				X			
32**				X		X	
33**				X			
34				X			
35			X***		X		WALK-IN BUSINESS FINDER FEES
36**						X	
37				X			
38				X			
39						X	WALK-IN

** OFFICE EQUIPMENT DEALERS

*** MOST EFFECTIVE

EXHIBIT III-11 (CONT.)

LEAD GENERATION METHODS AND EFFECTIVENESS -
DETAIL, PART II

RESPON- DENTS	COUNTER DISPLAY NAME-DROP BOXES	CIVIC & TRADE ASSOCIA- TIONS	TELEPHONE YELLOW PAGES	WORD-OF- MOUTH REFERRALS	"BINGO CARD" REFERRALS	COLD CALLS	OTHER
40					X	X	
41							
41							
42**				X	X	X	
43**					X		
44**					X	X	
45**							WALK-IN

**OFFICE EQUIPMENT DEALERS

***MOST EFFECTIVE

EXHIBIT III-12

DEALERS' STATEMENTS ON WHETHER THEY PROSPECT DIFFERENTLY
FOR SMALL BUSINESS COMPUTERS THAN FOR OFFICE EQUIPMENT

DO PROSPECT DIFFERENTLY	DO NOT PROSPECT DIFFERENTLY	UNDECIDED
33.3%	61.1%	5.6%

EXHIBIT III-13

COMMENTS FROM DEALERS ON PROSPECTING FOR LEADS ON SMALL BUSINESS COMPUTERS AND OFFICE EQUIPMENT

- "Do prospect differently" respondents:
 - Uses heavy, direct-mail advertising and mail-order solicitation for office equipment; uses heavy bill-board advertising for computers.
 - Relies heavily on outside office equipment salespeople to identify small business computer prospects.
 - Office equipment sold to office manager; small business computers sold to president, company accountant, department head.
 - Cold canvas for office equipment; makes appointments to sell small business computers.
 - Changes direction of advertising for small business computer sales.
- "Do not prospect differently" respondents:
 - Sells small business computers as extension of office equipment line.
 - Office equipment accounts are main prospects for small business computers.

EXHIBIT III-14

BUYING CHARACTERISTICS OF INDIVIDUALS INTERESTED IN SMALL BUSINESS COMPUTERS

PASSERBY TRAFFIC	PROSPECTS VISITED BY OUTSIDE SALESPEOPLE
<p>Curious - not much money</p> <p>Impulse buyers</p> <p>Excited by seeing and touching computer</p> <p>Usually amusement interest</p> <p>Shops around other stores</p> <p>Student; mom and dad</p> <p>Eager to buy</p> <p>Asks many questions</p> <p>Prequalified just by "walking in"</p>	<p>More serious prospect</p> <p>Longer, harder sale</p> <p>Salesperson may have to create urgency and need</p> <p>Wants to get a job done</p> <p>Usually competitive bid situation</p> <p>Professional businessperson</p> <p>Takes time to qualify and put in buying mood</p> <p>Knows what is needed</p> <p>Assumption of need may be false</p>
<ul style="list-style-type: none"> Approximately 15-20% of respondents did not see a difference in individual buying characteristics. Another 15-20% of respondents had no outside sales staff. They always arranged to have the prospect come into the store. 	

EXHIBIT III-15

GENERAL APPLICATION SOFTWARE

- All respondents indicated that the most frequently sold general application software available for the small business computer falls into two major categories:
 - Accounting and financial.
 - . Accounts payable.
 - . Accounts receivable.
 - . General ledger.
 - . Payroll.
 - . Statement of accounts.
 - Word processing.
- These two categories account for over 75% of all general business applications software purchased from dealers and stores interviewed in this survey.
- Other popular general application software sold by dealers and stores consists of:
 - Inventory control.
 - Property management.
 - CAI (Computer-Aided Instruction).
 - Data base and statistical analysis.
 - Invoicing and billing.

EXHIBIT III-16

RESPONDENTS' COMMENTS ON GENERAL APPLICATION SOFTWARE

- "General application software usually comes in packaged form from the computer manufacturer."
- "The programs are usually very limited in adaptability to an end user's specific business needs."
- "There are dozens of small, private software companies scattered throughout the United States which sell innumerable versions of the same type of business application programs."
- "The problem with almost all 'canned' and packaged software today, regardless of the source, is:
 - "Poor quality - many times not completely debugged."
 - "Expensive, given its limitations. "
 - "Unable to tailor easily to a specific application."
- "A major complaint by end users is variety without variation."
 - "A broader line of business application packages does not exist outside of custom programming."
- "Many of the publicly available programs are duplicated by end users, some value added and resold as proprietary software under private label, creating a substantial 'intermediate OEM market of software manufacturers.'"

EXHIBIT III-17

SPECIAL APPLICATION SOFTWARE

Most frequently mentioned special application software available for the small business computer consists of:

- Client write-up for CPAs.
- Auto dealer inventory and sales packages.
- Liquor store stock control packages.
- Foreign exchange accounting and portfolio management programs.
- Office dealer inventory and sales packages.
- Fuel oil accounting.
- Time disbursement and billing for lawyers.
- Auto finance and insurance programs.
- Medical and dental billing packages.
- Construction.
- Insurance agency.
- Stock market.
- Cardiac monitoring and telemetry.
- Music composition.
- Plumbing and electrical installation instruction.
- Elementary school math/spelling instruction.

EXHIBIT III-18

RESPONDENTS'
COMMENTS ON SPECIAL APPLICATION SOFTWARE

- "This software is manufactured almost exclusively by privates who package and sell it like an OEM."
- "There are large amounts of profit in this software; it is in great demand because no other is available from any other source."

EXHIBIT III-19

LACK OF SOFTWARE AS A
PROBLEM IN SELLING SMALL BUSINESS COMPUTERS

RESPONDENT	SUMMARY TABLE (PERCENT)		
	PROBLEM	NO PROBLEM	UNDECIDED
ALL DEALERS	62.2%	31.3%	6.5%
COMPUTER STORE OWNERS	63.0	25.9	11.1
OFFICE EQUIPMENT DEALERS	61.1	38.9	0.0

EXHIBIT III-20
RESPONDENTS' COMMENTS ON WHAT COULD BE DONE ABOUT LACK
OF SOFTWARE FOR SMALL BUSINESS COMPUTERS

- "Lack of software is not a problem for me because I write and sell my own proprietary software for business application areas that are in demand in my area."
- "Market demand is supplier-bound."
- "Hardware manufacturers should stay out of software or buy a separate company or hire special people who intimately know business applications, not just programming."
- "Buyers get quickly chagrined when they find the software can't do anything near what they expected it to do; reflects on whole computer automation benefit concept."
- "Stop deceiving the public in advertising; inform the consumer that computers are powerful tools but won't do miracles unless user learns how to communicate with it."
- "Set up industry software standards and conduct software application programming critiques in dealer/user magazines and newsletters."
- "I sell a computer educated to communicate with human beings." - (Dealer for Logical Machine Corporation's Tina, Adam, David and Goliath Line)
- "Make programming language more structural and incorporate auto sort, auto file, and more user prompting routines."
- "Charge more for good software to drive the cheap, junk software out of market."
- "Only competition and massive public education can eliminate lack-of-software problem."

EXHIBIT III-21

HOW OFFICE DEALERS AND COMPUTER STORES HANDLE PROGRAM CUSTOMIZATION REQUESTS

- Methods and frequency used:
 - Have programmers in-house who do it on a contract or per diem basis - 35.6%.
 - Use or refer customer to outside freelance programmers - 35.6%.
 - Dealer doesn't get involved at all; client is on its own - 17.7%.
 - Client knows programming; client teaches self programming; dealer teaches programming - 6.7%.
 - Uses local software house - 4.4%.
- About 50% of office equipment dealers don't get involved at all in custom programming or refer customers to outside "freelance" professionals and software houses.

EXHIBIT III-22

RESPONDENTS' COMMENTS ON CUSTOM PROGRAMMING SUPPORT

- "The dealer/store is the only backstop between the user and the manufacturer. If end users feel that their programming needs will not be supported by a dealer/store after the sale, the sale usually will not be made."
- "Successful dealer stores 'capture' clients of other neighborhood stores who have policies of not getting involved with custom programming."

EXHIBIT III-23

MOST FREQUENTLY USED PROGRAMMING LANGUAGES CITED BY RESPONDENTS
FOR SMALL BUSINESS COMPUTERS

RESPON- DENT	BASIC/ EXTENDED BASIC	PASCAL	MACHINE/ ASSEMBLY	COBOL/ MICRO COBOL	FORTRAN	OTHER
1	X					
2	X		X			
3	X					
4	X	X	X			
5	X	X		X	X	APL
6	X			X		
7	X	X		X	X	
8	X	X		X	X	
9						FORTH (SPECIAL LANGUAGE BY LOMAC) APL, PLI
10	X			X	X	
11	X	X				
12	X					
13	X					
14	X		X	X		
15	X					
16	X	X		X	X	
17	X			X	X	
18	X			X	X	
19	X					
20	X	X				
21	X	X				
22	X		X			
23	X					
24	X	X				
25	X		X			
26	X	X	X		X	
27	X	X				
28	X			X		
29	X					
30	X					
31	X				X	
32	X					
33						PLI
34	X				X	
35	X			X	X	
36	X			X		
37	X	X				
38	X	X				
39	X					
40	X	X				
41	X	X	X			
42	X					
43				X		
44	X					
45	X		X			

EXHIBIT III-24

STORE PROFILE

ITEM	ALL RESPONDENTS	COMPUTER STORES ONLY	OFFICE EQUIPMENT DEALERS ONLY
AVERAGE AGE OF STORE (YEARS)	6.2	2.4	12.4
AVERAGE TIME SELLING COMPUTERS (YEARS)	2.7	2.0	3.6
AVERAGE NUMBER OF SMALL BUSINESS COMPUTERS SOLD PER YEAR (UNITS)	159	241	58

EXHIBIT III-24 (CONT.)

STORE PROFILE

RESPON- DENT	AGE OF STORE (YEARS)	TIME SELLING COMPUTERS (YEARS)	TOTAL NUMBER OF COMPUTERS SOLD TO DATE OR CURRENT RATE OF SALE
1	2.5	2.5	WON'T SAY
2	0.3	0.3	8-12/MO. HOBBY, 1-2/MO. PROCESS; 1-2/MO. BUSINESS
3**	3.0	3.0	40 APPLES, 10 H-P's, 5 INFOTEC's, A COUPLE PERTEC TO DATE
4**	27.0	1.0	15 TO DATE
5	2.5	0.5	125 APPLES, 25 ALTOS TO DATE
6**	4.0	1.0	95-100 TO DATE
7	2.5	2.0	400-500 TO DATE
8	3.6	3.6	200 APPLES/YEAR
9**	6.0	2.0	1/MONTH
10	4.8	1.0	1 APPLE/DAY
11	1.5	1.5	250 APPLES/YR. (1 OF TOP 20 APPLE DEALERS IN THE COUNTRY)
12**	38.0	7.0	35 TO DATE
13**	3.5	2.0	25 TO DATE
14**	7.0	1.0	1/MONTH
15	1.5	1.5	CLOSE TO 500 TO DATE
16	3.0	3.0	DON'T KNOW
17**	5.0	0.3	2 TO DATE
18	1.4	1.4	WON'T SAY
19	0.5	0.5	3-4/WEEK
20	3.2	1.2	1 APPLE/DAY
21	4.0	4.0	12/MONTH
22	4.0	4.0	6-10/MONTH
23	2.0	2.0	0-3/DAY
24	1.5	1.5	250-300 TO DATE
25	2.0	2.0	12-15/MONTH
26	2.0	2.0	25/MONTH

**OFFICE EQUIPMENT DEALER

EXHIBIT III-24 (CONT.)

STORE PROFILE

RESPONDENT	AGE OF STORE (YEARS)	TIME SELLING COMPUTERS (YEARS)	TOTAL NUMBER OF COMPUTERS SOLD TO DATE OR CURRENT RATE OF SALE
27	0.8	0.8	100-150 TO DATE
28	3.0	3.0	1/MONTH
29**	10.0	0.4	2 TO DATE
30**	7.0	4.0	100 TO DATE
31**	17.0	6.0	35-37 TO DATE
32**	16.0	2.0	6 TO DATE
33**	8.0	4.5	100, 50 TO THE GOVERNMENT
34	2.8	2.7	30 TO DATE
35	2.5	2.5	HUNDREDS TO DATE
36**	4.5	4.0	200 TO DATE
37	1.5	1.0	WON'T SAY
38	2.0	2.0	240-280 APPLES, 60-70 OTHERS
39	2.6	2.5	WON'T SAY
40	3.5	1.5	6-8/MONTH
41	4.0	4.0	AT LEAST 500 TO DATE
42**	23.0	16.0	ABOUT 100 TO DATE
43**	5.0	4.5	120 TO DATE
44**	5.0	4.5	50-60 TO DATE
45**	34.0	6.0	20 TO DATE

** OFFICE EQUIPMENT DEALER

EXHIBIT III-25
STORE ENVIRONMENT

RESPON- DENTS	CENTER CITY BUSINESS DISTRICT	COMMER- CIAL/IN- DUSTRIAL PARK	SUBURBAN RETAIL SHOPPING CENTER	SUBUR- BAN COM- MERCIAL OFFICE COMPLEX	OTHER	REASONS FOR CHOOSING LOCATION
1	X					WON'T SAY
2	X					LOW OVERHEAD, WALK-IN TRAFFIC NOT IMPORTANT
3**	X					NEEDED LARGER DISPLAY AREA
4**	X					LOCATION OF FORMER BUSINESS; LOW OVERHEAD, FEW WALK-IN CUSTOMERS
5					SUBURBAN MOTEL	CHEAP; LOCATION NOT CRITICAL
6**			X			POOR DECISION; HIGH TRAFFIC BUT LOW VISIBILITY
7			X			HEART OF SILICON VALLEY
8	X					CENTRAL TO MAJOR INDUSTRIAL PARKS AND SCHOOLS
9**				X		LEASED FROM FORMER EMPLOYER; LOCATION NOT CRITICAL
10						LOW RENT
11	X					RICHEST COUNTY IN AREA; OFF MAJOR HIGHWAY
12**					OUTSKIRTS CENTER CITY	HOT PART OF TOWN 38 YEARS AGO
13**				X		AVAILABLE ECONOMICAL; NOT NECESSARY TO BE IN MOST AFFLUENT AREA

** OFFICE EQUIPMENT DEALERS

EXHIBIT III-25 (CONT.)

STORE ENVIRONMENT

RESPONDENTS	CENTER CITY BUSINESS DISTRICT	COMMERCIAL/INDUSTRIAL PARK	SUBURBAN RETAIL SHOPPING CENTER	SUBURBAN COMMERCIAL OFFICE COMPLEX	OTHER	REASONS FOR CHOOSING LOCATION
14**			X			WHERE HE LIVES; BY ACCIDENT
15			X			TRAFFIC FLOW, AFFLUENT AREA
16			X			BELIEVES IN WALK-IN BUSINESS
17**				X		PRESTIGIOUS ADDRESS, NO WALK-IN VALUE
18						TOOK WHAT HE COULD GET
19	X				MIXTURE OF EVERYTHING	
20			X			DOESN'T REALLY KNOW
21			X			55% WALK-IN BUSINESS
22		X				ECONOMICAL, LOOKED GOOD
23					STRIP MALL	IT WORKS, CENTER OF CLIENT BASE
24			X			FRANCHISOR DID SITE SURVEY
25				X		TRAFFIC FLOW
26		X				CLOSE TO HOME AND FREEWAYS
27	X					CLOSE TO BELL TELEPHONE AND HIGHLY TECHNICAL AREA
28	X					HIGH-DENSITY BUSINESS PROSPECTS, AFFLUENT AREA
29**	X					ECONOMICALLY FEASIBLE
30**	X		X			HIGH-DENSITY BUSINESS AREA
31**						OFFICE DEALER HAD STORE PREVIOUSLY; CAPTURED SOME OF HIS BUSINESS

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-25 (CONT.)

STORE ENVIRONMENT

RESPONDENTS	CENTER CITY BUSINESS DISTRICT	COMMERCIAL/INDUSTRIAL PARK	SUBURBAN RETAIL SHOPPING CENTER	SUBURBAN COMMERCIAL OFFICE COMPLEX	OTHER	REASONS FOR CHOOSING LOCATION
32**	X					OWN PROPERTY; BEEN THERE MANY YEARS
33**				X		HOTTEST SPOT IN TOWN
34				X		FASTEST-GROWING CITY IN AREA
35			X			OWNS THE BUILDING
36**	X					GOOD TRAFFIC AREA
37	X					OWN BUILDING, EASY ACCESS
38			X			DOESN'T KNOW
39			X			PICKED MOST AFFLUENT AREA
40			X			TRAFFIC FLOW
41			X			AFFLUENT AREA
42**			X			HEART OF ELECTRONICS ROW
43**			X			COULDN'T FIND A BETTER LOCATION
44**					RESIDENTIAL	OWN THE BUILDING
45**				X		OWN THE BUILDING, ONLY VIABLE PLACE IN TOWN
						BEEN THERE 40 YEARS

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-26

STORE SALES PATTERNS

- Office equipment dealers sell 50% of small business computers to new accounts and 50% to existing accounts.
- Essentially, all of small business computer sales by computer stores are first-time sales.
- Of the first-time sales of small business computers by office equipment dealers, 50% of these new clients purchase other merchandise from the dealer at a later date.
 - Supplies.
 - Office equipment.
 - Peripherals.
 - Upgrades and additional computers.

EXHIBIT III-27

OFFICE DEALER/COMPUTER STORE
GROSS SALES

TYPE OF RESPONDENTS	AVERAGE GROSS SALES OF RESPONDENTS
ALL RESPONDENTS	\$ 975,000
COMPUTER STORES ONLY	1,058,000
OFFICE EQUIPMENT DEALERS ONLY	854,000

EXHIBIT III-28

OFFICE DEALER/COMPUTER STORE
FLOOR SPACE

TYPE OF RESPONDENTS	SELLING/DISPLAY AREA AS PERCENT OF TOTAL FLOOR SPACE
ALL RESPONDENTS	52.2%
COMPUTER STORES ONLY	65.3
OFFICE EQUIPMENT DEALERS ONLY	37.4

EXHIBIT III-29

STORE HOURS

OFFICE EQUIPMENT DEALERS

- Most office equipment dealers have store hours (8 a.m. - 6 p.m.) Monday through Friday which conform closely with normal business days and hours.
- In general, they open earlier and close earlier than computer stores.
- About 50% of the office equipment dealers interviewed do not open on Saturday and don't make special appointments. Those that open on Saturday mostly do so for half a day - usually 9 a.m. to 12 p.m.
- No office equipment dealer interviewed opened on Sunday.

COMPUTER STORES

- Most computer stores open between 9:30 a.m. and noon and close between 6 p.m. and 8 p.m.
- About one-third of the computer stores have late store hours Thursday and Friday evenings (up to 9 p.m.) which conform more to retail-trade-type business establishments.
- The majority of computer stores are open on Saturday, usually from 10 a.m. to 5 p.m. or 6 p.m.
- A few computer stores open on Sunday and are closed on Monday, especially if they run a full six-day week.
- Almost all computer stores were willing to entertain appointments at specially arranged hours.

EXHIBIT III-30

STORE PERSONNEL PROFILE
(AVERAGE NUMBER OF PEOPLE
PER JOB CATEGORY)

PERSONNEL	ALL RESPONDENTS	COMPUTER STORES ONLY	OFFICE EQUIPMENT DEALERS ONLY
<u>FULL-TIME</u>			
OWNERS/PARTNERS	1.3	1.3	1.3
STORE MANAGERS	0.7	0.5	1.1
ASSISTANT MANAGERS	0.5	0.1	1.1
INSIDE SALES STAFF	2.1	2.0	2.2
OUTSIDE SALES STAFF	1.7	0.3	3.6
PROGRAMMERS/ANALYSTS	0.9	0.4	1.7
MAINTENANCE TECHNICIANS	2.1	1.1	3.4
ADMINISTRATIVE PERSONNEL	1.6	0.8	2.8
OTHER MISCELLANEOUS	0.1	0.0	0.3
<u>PART-TIME</u>			
OWNERS/PARTNERS	0.0	0.0	0.0
STORE MANAGERS	0.0	0.0	0.0
ASSISTANT MANAGERS	0.0	0.0	0.0
INSIDE SALES STAFF	0.4	0.5	0.1
OUTSIDE SALES STAFF	0.7	0.3	1.2
PROGRAMMERS/ANALYSTS	0.3	0.2	0.5
MAINTENANCE TECHNICIANS	0.2	0.3	0.1
ADMINISTRATIVE PERSONNEL	0.1	0.1	0.0
OTHER MISCELLANEOUS	0.1	0.2	0.1

EXHIBIT III-31

MARGINS REQUIRED TO MAINTAIN
NORMAL PROFIT LEVELS

RESPONDENT	MINIMUM NEEDED (%)	NOW GETTING (%)	PREFERENCE (%)
1	35%		
2	40 But don't usually get it		
3**	30	45%	
4**	25	33	
5	25-30		
6**	25-30		
7	25+	40	
8		25-30	40%
9**	35		
10	25-40		
11	35		
12**		25-32	40 But never get
13**	40		
14**	40		
15			Better than 40, but don't get it
16	33	40	

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-31 (CONT.)

MARGINS REQUIRED TO MAINTAIN
NORMAL PROFIT LEVELS

RESPONDENT	MINIMUM NEEDED (%)	NOW GETTING (%)	PREFERENCE (%)
17**	40%		
18	Won't say		
19	30	30-40% But many times don't get it	
20	20		
21	30		
22	35		
23		25-35	
24	30		
25	35		
26		Needs \$40,000-\$46,000/month gross based on fixed costs; \$50,000 variable costs	
27	20-30		
28	40		
29**	Don't know yet		
30**	25		40
31**	33		
32**	35		36-37

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-31 (CONT.)

MARGINS REQUIRED TO MAINTAIN
NORMAL PROFIT LEVELS

RESPONDENT	MINIMUM NEEDED (%)	NOW GETTING (%)	PREFERENCE (%)
33**	40%	35%	30-50%
34	35	20-25	
35	25		
36**	40		
37	Won't say		
38	35		
39	30		
40	5-20 Largest distributor of small business computers in the U.S.		
41	CLASSIFIED INFORMATION		
42**	40		
43**	30+		
44**	30		
45**	30		

**OFFICE EQUIPMENT DEALERS

EXHIBIT III-32

RESPONDENTS' COMMENTS ON MARGINS REQUIRED TO MAINTAIN NORMAL PROFIT LEVELS

- "Depends on type and name brand of equipment sold. Mix of hardware and software important; profit is usually not made on computer hardware. Taking more of a 'systems approach' allows greater control of profit."
- "Will get up to 40% on some lines."
- "Up to 37% on Cromenco; lower on Apple."
- "Personal service, education, and training eat up much time and profit."
- "Outside salesman's commissions very high."
- "Shipping costs of hardware are high (FOB California). Telecommunication costs with manufacturer are high; in general, labor cost of servicing equipment under manufacturer warranty is nonreimbursable."
- "Prime rate is 20%; I pay 27% to bank for short-term money; I get 30% average margins if I'm lucky; need I say more?"
- "In New York City costs very high."
- "Hewlett-Packard offers 25% - no one can sell equipment for that money."
- "Depends on how good you can control your costs."

EXHIBIT III-33

TYPICAL OPERATING COSTS MENTIONED BY RESPONDENTS
WHICH EAT UP PROFIT MARGINS

1. Selling and demonstration time.
2. Cost of replacing inventory.
3. Client and store personnel training.
4. Passerby prospect education.
5. Promotion and advertising.
6. Freight and communication costs.
7. Prime rate.
8. Equipment warrantee servicing.
9. Outside salesperson's commission costs.
10. Store rent and associated overhead.

EXHIBIT III-34

SALES AND PROFIT EXPECTATIONS OF RESPONDENTS

TYPE OF RESPONDENTS	HAVE MET EXPEC- TATIONS	HAVE NOT MET EXPEC- TATIONS	SPLIT ⁽¹⁾	UNDECIDED
ALL RESPONDENTS	46.7%	37.8%	11.1%	4.4%
COMPUTER STORES ONLY	55.5	29.9	7.3	7.3
OFFICE EQUIPMENT DEALERS ONLY	33.3	50.0	11.1	5.6

⁽¹⁾EITHER SALES MET EXPECTATIONS AND PROFITS DID NOT OR VICE VERSA; USUALLY UNDER-ESTIMATED VOLUME AND OVERESTIMATED MARGINS

EXHIBIT III-35

COMMENTS FROM RESPONDENTS ON THEIR
SALES AND PROFIT EXPECTATIONS

COMPUTER STORE DEALERS

- "Have met expectations."
 - Researched business very carefully before starting.
 - Worked in the computer field before going into business.
- "Have not met expectations."
 - Thought market would be bigger.
 - Expected more support from manufacturer.
 - Disappointed on hardware margins.
 - Economy is hurting business.
 - Got hurt in hobbyist market.

OFFICE EQUIPMENT DEALERS

- "Have met expectations."
 - Previous experience in office equipment field helpful.
 - Proceeded cautiously.

EXHIBIT III-35 (CONT.)

COMMENTS FROM RESPONDENTS ON THEIR
SALES AND PROFIT EXPECTATIONS

OFFICE EQUIPMENT DEALERS

- "Have not met expectations."
 - Tremendous amount of dealer education needed for startup.
 - Thought volume would be greater.
 - Did not foresee magnitude of software problems.
 - Tight credit.
 - Low margins.

EXHIBIT III-36

SALES STAFF COMPENSATION

TYPE OF RESPONDENTS	AVERAGE MONTHLY INCOME		
	LOW	AVERAGE	HIGH
<u>ALL RESPONDENTS</u>			
. INSIDE SALESPeOPLE	\$ 250	\$1,587	\$3,500
. OUTSIDE SALESPeOPLE	83	1,880	3,333
<u>. COMPUTER STORE DEALERS ONLY</u>			
. INSIDE SALESPeOPLE	250	1,494	2,917
. OUTSIDE SALESPeOPLE	83	1,494	2,916
<u>. OFFICE EQUIPMENT DEALERS ONLY</u>			
. INSIDE SALESPeOPLE	400	1,864	3,500
. OUTSIDE SALESPeOPLE	1,250	2,105	3,333

EXHIBIT III-37
SALES STAFF COMPENSATION MODE

TYPE OF RESPONDENTS	BASE ONLY	COMMISSION ONLY	BASE AND COMMISSION	DRAW AGAINST COMMISSION OR BASE	PERCENT OR DRAW AGAINST PROFITS	OTHER
<u>ALL DEALERS</u>						
INSIDE SALESPeOPLE	18.6%	20.9%	39.5%	14.0%	18.6%	2.3%
OUTSIDE SALES- PEOPLE	11.1	51.9	25.9	22.2	14.8	0.0
<u>COMPUTER STORES ONLY</u>						
INSIDE SALESPeOPLE	24.0	16.0	52.0	12.0	12.0	4.0
OUTSIDE SALES- PEOPLE	18.1	54.5	45.4	9.0	9.0	0.0
<u>OFFICE EQUIPMENT DEALERS ONLY</u>						
INSIDE SALES- PEOPLE	16.7	27.8	33.3	22.2	27.8	0.0
OUTSIDE SALES- PEOPLE	11.1	22.2	22.2	11.1	27.8	5.6
	6.2	50.0	25.0	25.0	18.8	0.0

NOTE: COLUMNS AND ROWS DO NOT ROUND TO 100% BECAUSE SOME DEALERS USED ALL MODES OF COMPENSATION FOR BOTH OUTSIDE AND INSIDE SALESPeOPLE DEPENDING ON SENIORITY AND INDIVIDUAL ARRANGEMENTS.

EXHIBIT III-38

INSIDE VERSUS OUTSIDE SALESPEOPLE

- Of all respondents surveyed:
 - 100% have inside sales staff.
 - 62.8% have both inside and outside sales staff.
- Of all computer stores surveyed:
 - 44% have both inside and outside sales staff.
- Of all office equipment dealers surveyed:
 - 88.9% have both inside and outside sales staff.

EXHIBIT III-39

SALES STAFF TRAINING METHODS

- Almost all respondents interviewed used "on-the-job training" (OJT) as the primary means of training both inside and outside sales staff.
- The only exception was respondents who hired experienced people who gave them a few hours of "hands-on" experience working with the computer and applications software to familiarize themselves with a product for demonstration purposes.
- Most respondents had no problem finding sales staff since they recruit computer science majors at local colleges and universities or hire experienced store people moving into the area from other parts of the country.
- Respondents, however, usually experienced a high turnover rate because once a salesperson obtains substantial experience and success, this person is lured away by companies who manufacture computers or sell computer services. The primary incentive for the move is more money and security, in that order.
- A few respondents used third-party sales education programs (Xerox and Dale Carnegie) to train sales staff and most of them use the dealer training programs of manufacturers if and when available.
- There was no significant difference in sales staff training methods between computer stores and office equipment dealers.

EXHIBIT III-40

INSIDE SELLING AS A TRAINING GROUND FOR OUTSIDE SALES STAFF

- Most respondents who use outside sales staff thought that this was a good idea in principle, but not in practice because the personality, sales functions, and working environment of an outside salesperson are quite different from an internal one.
- The inside salesperson is more of a technical, programming, business applications specialist; an outside salesperson has to be a good self-starter and manager, more aggressive, have the ability to "bird-dog" serious prospects and create a sense of urgency and need in the prospect.
- An outside salesperson receives a higher rate of rejection of suspects and prospects than an "in-store" salesperson. This person is usually at an additional handicap because it is impractical to set up a portable computer unit for demonstration at the prospect's place of business. This is especially meaningful because a "live demonstration" is essential and central to the entire selling process.

EXHIBIT III-41

CUSTOMER TRAINING

- One hundred percent (100%) of dealers and stores interviewed provided customer training in the use of the computer system purchased.
- In the majority of cases, the training was provided by the salesperson who made the sale.
- 55.6% of the training was in the form of individual "tutoring" at clients' facilities averaging 17.1 hours per client.
- 13.3% of the training each was supplemented by "hot line telephone" support and self-instruction methods.
- Only one respondent in each category used more advanced and innovative teaching methods such as slides, videotapes, workshops, and users forums.
- No significant differences were found in customer training between computer stores and office equipment dealers.

EXHIBIT III-42

RESPONDENTS' SUGGESTIONS FOR IMPROVING CUSTOMER TRAINING

- Don't write training manuals for "programmer types."
- Manufacturers need to provide more dealer demonstration programs.
- CAI (computer-aided instruction).
- More comprehensive and better illustrated instruction manuals.

EXHIBIT III-43

EQUIPMENT MAINTENANCE

- 84.4% of all respondents provided customer equipment maintenance; the balance of the maintenance was done by a manufacturer service center.
- 44.4% of all respondents provided equipment maintenance through service contract and time and materials.
- 46.7% of the dealers provided equipment maintenance through a service contract only.
- 13.3% of all respondents provided equipment maintenance on a time and materials basis only.
- The average cost of a service contract was 1.0% of the equipment or system sales price per month.
- On a flat-rate basis, the average cost of a service contract was \$172 per month.
- No significant difference was noted in the price or means of paying for equipment service between a computer store and an office equipment dealer.
- Most of the dealers interviewed preferred to service equipment brought into the store; those that serviced equipment "on-site" were the exception and then only within a fifty-mile radius.
- "On-site maintenance always entailed a service charge over and above the service contract or time and material rate and costs.

EXHIBIT III-44

RESPONDENTS' SUGGESTIONS FOR IMPROVING EQUIPMENT MAINTENANCE

- Improve manufacturer quality control testing before shipping.
- Use more "swap boards."
- Make equipment more modular.
- Provide better maintenance documentation.
- Faster and more local dealer-manufacturer communications regarding equipment trouble-shooting.
- Use of a mobile van.
- Preventive maintenance programs.
- Easier and faster equipment diagnosis by use of more text points.
- Dealer "24-hour hot line".
- More training centers outside California.
- Have factory representatives periodically visit and train dealers.
- Help in financing parts inventory.
- Adequate availability of replacement parts.

EXHIBIT III-45

RESPONDENTS' COMMENTS ON OUTLOOK FOR SMALL BUSINESS COMPUTER MARKET

- "Market flattening out on second plateau before it goes asymptotic."
- "End users not as price sensitive as they are to dealer/store owner making commitment to support the maintenance and ongoing operation of their computer."
- "Very concerned about a large hardware manufacturer coming in and buying up the market."
- "Vendor stores not a serious competitor because they have too narrow a product line."
- "Market is colicky until better quality and wider range of business applications software comes into the market."
- "Ideal vendor would be a large hardware manufacturer who would merge or buy out a large software supermarket-type company."
- "IBM OPD sales people should start to sell software to their office equipment accounts and then back into the hardware end of the market. Their price line should be slightly above the Apple line."
- "Mail order is not a threat because most dealers won't service or support computers not bought from them."
- "IBM brand name would help in the selling process, but most users buy name brands they never heard of mostly because of their confidence in store dealer to support this system."
- "Thinks big companies like IBM will come into the market within eighteen months; to prevent from being wiped out dealers would have to move to special application programs to survive."

EXHIBIT III-45 (CONT.)

RESPONDENTS' COMMENTS ON OUTLOOK FOR SMALL BUSINESS COMPUTER MARKET

- "Selling small business computers is an education-type business."
- "Computer-phobia is biggest problem in not drawing in the majority of small businessmen waiting on the sidelines."
- "Big chain stores and franchises will succeed over independent dealers because of volume discounts on computer purchases; co-op advertising, etc."
- "If a big computer company came into the market, hopefully they would work through established dealers to sell their product."
- "Most people who buy small computers have a high degree of formal education."
- "With high inflation, time is money; businesspeople can't do without it."
- "Everyone will do well for three or four years, then all business will go back to IBM."
- "The bad economy will actually help the small computer market."
- "The prospect who can afford a \$15,000-30,000 computer is buying now and not afraid of the economy; the prospect who can only afford a \$3,000-8,000 computer is holding off because of the tight economy."
- "Could double sales if telephone inquiries handled properly."
- "IBM, Wang, or DEC could hurt market by coming out with low-priced, high-technology product."
- "Even IBM and other companies are creating the market by providing more hardware productivity for less cost."
- "Home education and school markets booming today."

EXHIBIT III-45 (CONT.)

RESPONDENTS' COMMENTS ON OUTLOOK
FOR SMALL BUSINESS COMPUTER MARKET

- "Seiko will be entering the U.S. small business computer market in a big way during the last quarter of 1980 with a dot matrix printer. These sub-assembled units will be sold through distributorships and dealerships at close to 50% margins. They are currently manufacturing at the rate of 22,000 units per month."
- "Market is in the process of being hurt by false and misleading advertising."
- "Don't go copier sales, vendor store, or franchising route."
- "Big companies like IBM don't have experience communicating with the small businessman; can't afford high salaries and overhead to support sales and technical people in this market."
- "If small business market is so good, why isn't IBM in the market?"
- "Flooding market with hardware is hurting the market."
- "Doesn't think department stores could successfully sell small business computers."
- "Some vertical markets are booming (real estate, medical, industrial)."
- "IBM name familiarity important to companies with more than 100 employees."
- "Don't think anything will hurt the small computer market, including the economy."

APPENDIX: QUESTIONNAIRE

QUESTIONNAIRE SUMMARY

INPUT is currently interviewing office equipment dealers who also sell computers to determine the operating characteristics of their business.

All information provided in this questionnaire will be confidential. INPUT will not identify the participants in this survey.

BACKGROUND

INPUT is currently interviewing owners or managers of office product dealerships who sell computers, computer vendor stores and computer dealerships in the United States who sell small business computers to:

- Small business (1-99 employees).
- Large Corporations (100+ employees).
- Self employed individuals including professionals.
- Affluent hobbyist/consumer.

INTERVIEW QUALIFIERS

To be interviewed, a dealer must pass two qualifiers:

- I. Predominantly business oriented clientele as stated by respondent.
- II. Product line - Carry an obvious line of business equipment viz. text/word processors, office typewriters and/or small business computers (\$3K range and up).

CONFIDENTIALITY

All information provided in this questionnaire will be confidential. INPUT will not identify the participants or the sponsor of this survey.

DEALER QUESTIONNAIRE

QUALIFIERS

1a. Do you sell small business computers and/or text/word processing equipment?

() YES () NO

1b. Do you sell this equipment predominantly to businessmen?

() YES () NO

IF THE ANSWER TO EITHER QUESTION 1a OR 1b IS NO; COMPLETE QUESTION 1c AND TERMINATE THE INTERVIEW. THE RESPONDENT DOES NOT MEET THE REQUIRED QUALIFIERS FOR THIS STUDY.

1c. Do you plan to carry a small business computer line within the next year?

() YES () NO

PRODUCT

2a. What brand names and mix of products do you carry?

Small Business Computers	Word Processing/ Text Editors	Copy Machines	Office Electric Typewriters

INPUT

- 2b. Of the above mentioned products, which do you consider contributes most to the success of your business? Why?
- 3a. Of all the products which you carry, which product accounts for the largest percentage of your total sales?
- 3b. On which product do you make your greatest profit? Why?
4. Of all the products which you carry, which is the most effective in drawing "walk-in" business? Why?

5. Approximately what percentage of your products are sold to the following markets?

Products Markets	Small Business Computers	Word Processing/ Text Editors	Copy Machines	Office Electric Typewriters
Small Companies (less than 100 people)				
Large Companies (over 100 people)				
Self employed Individuals Including Professionals				
Affluent Hobbyist/ Consumer				

- 6a. What software is sold with your small business computers?

- 6b. Where is it obtained?

- 6c. What languages are used with these computers?

7a. Is lack of software a problem in selling small business computers?

7b. If so, what do you think could be done about it?

8. How do you handle program customization requests?

PROSPECTING

9. How do you obtain leads on people interested in buying small business computers?

- ☐ Direct mail.
- ☐ Newspaper advertising.
- ☐ Trade journal advertising.
- ☐ Radio advertising.
- ☐ Television advertising.
- ☐ Trade shows.
- ☐ Seminars.
- ☐ Counter display or contest entry name-drop box.
- ☐ Participating in civic group and trade association activities.
- ☐ Other. _____

10. Do you prospect differently for leads on people interested in buying small business computers than for people interested in buying office equipment?

() YES () NO

How?

11. What personal, professional or other buying characteristics do you detect in "walk-in" prospects for small business computers as compared to prospects originally contacted by outside salesmen at their work/office?

"WALK-IN" PROSPECTS

PROSPECTS VISITED BY
OUTSIDE SALESMEN

SELLING

- 12a. How long have you been selling small business computers in your store?

- 12b. How many small business computers have you sold in that time?

12c. Has your level of sales and profit margins met your initial expectations?

() YES () NO

Why?

13. What percentage of your small business computers are sold to "walk-in" customers?

14a. What percentage of your sales of small business computers represent first time sales to a new customer?

14b. Of all your first time sales to a new customer, what percentage subsequently bought other office equipment and supplies (not computer related) from your store?

15a. Does it take longer or less time to sell a "walk-in" prospect a small business computer than a prospect originally contacted by an outside salesman at their work or office?

15b. How much longer or less time does it take? Why?

SUPPORT AND MAINTENANCE

16a. Who is responsible for training customers in the use of the computer system?

- () Dealer.
- () Third Party.
- () Other. _____

16b. How is customer's training provided.

- () Classroom training part of sales package.
- () Self instruction booklet.
- () Home study course.
- () Customer telephone "hot line" support.
- () Classes held at local college/university.
- () Dealer workshops.
- () Other.

17. What suggestions do you have for improving customer training?

18a. Who performs equipment maintenance?

- ☐ Dealer.
- ☐ Manufacturer service center.
- ☐ Third party.
- ☐ Customer via replaceable/disposable logic cards and auto-diagnostic "built ins".
- ☐ Other.

18b. How is it paid for?

- ☐ Service contract.
- ☐ Time and materials.
- ☐ Other.

18c. What suggestions do you have for improving equipment maintenance?

OPERATIONS PROFILE

19a. How long has your store been in business?

19b. What is its size?

Gross sales _____

Percentage of selling/display area to total floor space _____

20a. Which best describes your stores environment?

- () Center city business district.
- () Commercial/industrial park.
- () Suburban retail shopping center.
- () Suburban commercial office complex.
- () Other.

20b. Why did you choose this physical location?

21. What is the composition of your staff?

<u>FUNCTION</u>	<u># OF PEOPLE</u>	<u>FULL TIME/ PART TIME</u>
Manager	_____	_____
Assistant Manager	_____	_____
Inside Sales People	_____	_____
Outside Sales People	_____	_____
Programmers/Analysts	_____	_____
Maintenance Specialists	_____	_____
Office Personnel	_____	_____
Other _____	_____	_____

22a. How do you compensate your salesmen?

	<u>INSIDE</u> <u>SALESMEN</u>	<u>OUTSIDE</u> <u>SALESMEN</u>
Base salary only	()	()
Commission only	()	()
Base & commission	()	()
Draw against base	()	()
Bonus option on any of the above	()	()
Other	()	()

22b. What is their average annual income?

\$_____ \$_____

23a. How do you train your...

Inside salesmen.

Outside salesmen.

- 23b. What do you think of the idea of using inside selling as a training ground for grooming outside salesmen?

24.

What are your...	Monday-Friday	Saturday	Sunday
Regular Store Hours			
Demonstration Times			
Presentation Times Seminar Schedules			
Special Evening and Weekend Hours			
Appointments			

MARK-UP AND PROFIT

25. What margin do you need to maintain your normal profit levels? Why?

GENERAL

26. Some people see the small business computer market today taking off and representing a significant long term business growth area; others see the market today in its infancy and as a short lived phenomea.

How do you see this market as compared to other business equipment and market trends witnessed over the last 10 years?

